

NATIONAL DEFENSE UNIVERSITY

NATIONAL WAR COLLEGE

**TOWARD A NEW FOREIGN POLICY IN INDONESIA,
THE ISLAMIC GIANT IN SOUTHEAST ASIA**

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Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 2002		2. REPORT TYPE		3. DATES COVERED 00-00-2002 to 00-00-2002	
4. TITLE AND SUBTITLE Toward a new Foreign Policy in Indonesia, The Islamic Giant in Southeast Asia				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) National War College, 300 5th Avenue, Fort Lesley J. McNair, Washington, DC, 20319-6000				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT see report					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES 17	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

TOWARD A NEW FOREIGN POLICY IN INDONESIA, THE ISLAMIC GIANT IN SOUTHEAST ASIA

Introduction

Indonesia has been embroiled in an extraordinarily complex political, economic and social crisis since 1997. The Asian financial crisis led to a virtual economic and financial collapse that resulted in currency destabilization, a sharp increase in prices and interest rates, massive unemployment, and poverty. Between 1997 and 1998 the value of the currency sank to less than one-sixth of its pre-crisis value (Stalker, 2000, 4). Between 1996 to early 1999, the proportion of the population living below the poverty line increased from 17% to 27% (Stalker, 2000, 6). The economic crisis reversed three decades of steady economic growth achieved during the Suharto regime. Over that 30-year period, the provision of basic infrastructure (water, roads, electricity, schools) increased. Indonesians became wealthier, healthier, and better educated, but they also had to endure a corrupt and repressive regime. The precipitous fall in the economy dramatically illustrated the fragility of economic and financial institutions and led to a violent uprising among the population to demand an end to the authoritarian regime of President Suharto. The downfall of authoritarianism could have prompted Indonesia to retreat into another round of repressive leadership, nationalism, and isolationism. Instead, the people demanded an end to corruption, collusion and nepotism, and expressed their voice for a more just and democratic government.

Despite the difficulties that Indonesia is experiencing in its turbulent transition from authoritarianism to democracy, there are extraordinary opportunities for the United States (U.S.) to influence this process. A successful transition to democracy in Indonesia will help demonstrate to the world that democracy is possible in a Muslim country -- that both democracy and economic prosperity are compatible with Islam. This is a particularly important objective now because of the perilous state of the world which appears to be heading toward a "clash

between civilizations;” democratic forces led by the U.S. are facing a threat from radical Islamic groups which have confronted American values with violence. As a result of the violent attacks in New York and Washington on September 11, 2001, President George W. Bush has declared “war on terrorism” and is building an international coalition to combat terrorism. As the world’s largest Islamic country, Indonesia should play a role in this coalition. It is very timely that a meeting between Bush and Indonesia’s new president, Megawati Sukarnoputri will occur this week to discuss ways that Indonesia might be able to support this coalition.

The U.S. will have to tread carefully in Indonesia since the outcome of its democratic transition is fundamentally for the Indonesian people to decide. But, the U.S. has an opportunity to build on a historically strong bilateral relationship to protect and promote our democratic and economic interests, and to assist Indonesia to resolve its serious political, economic, and social problems -- and build a stronger nation in the process.

The purpose of this paper is to review the complex challenges confronting Indonesia in its transition from authoritarianism to democracy and to advocate priorities for U.S. foreign policy objectives in Indonesia that serve American national interests.

Background and Assumptions

The irony of Suharto’s long, oppressive rule is that annual economic growth within Indonesia and Indonesia’s participation in an increasingly interdependent global economy eventually undermined his own power. As Indonesia’s Gross National Product increased, per capita income increased, and the population became better educated which led to rising expectations and aspirations. Economic growth led to the development of a large middle class. Information technology, including the Internet, expanded in urban areas throughout Indonesia and led to better and more open communication. Politically active students, whose freedom of assembly rights were prohibited, learned to communicate effectively through the Internet, organized networks for political expression, and eventually mobilized support for their political

causes. Increased communication brought newfound assertiveness to civic groups to rally against their oppressive political leadership.

In 1999, Indonesia held its first democratic presidential election in over 30 years. The Indonesian Democratic Party of Struggle (Indonesian acronym PDI), which Megawati Sukarnoputri chairs, won the majority of popular votes. To many Indonesians, Megawati assumes an almost mythic symbolism. She represents a return to the revolutionary spirit of her father, Sukarno, who struggled successfully for Indonesia's independence from colonial oppression in the 1940s. Although her party won the popular vote, election of the president is accomplished through a vote by the supreme legislature, the People's Constitutional Assembly, not by direct representation of the people. (The system is not dissimilar from the U.S. electoral system.) Leaders of several powerful conservative Islamic parties objected to installing a woman as president, and in a last minute coalition-building exercise, they voted and elected Abdurrahman Wahid, a fragile, blind, Islamic cleric, as President. Wahid had been revered as a moderate Islamic spiritual leader, and had his base of support in a powerful and influential Islamic organization, the *Nahdlatul Ulama (NU)* whose members in Indonesia exceed 30 million. The legislature elected Megawati Sukarnoputri as his vice president.

While Wahid's spiritual leadership represented the ideal notion of Indonesia as devout, but tolerant and inclusive, his leadership did not extend to the political arena. His erratic, sharp-tongued style, his implication in two financial scandals, and the inability of his administration to effect important economic and political reforms or to restore national unity, led to a gradual decline in his support by the very parliamentary leaders who had installed him. Under pressure to step down during the final nine months of his short 21-month tenure, he insulted critics and threatened to declare martial law and disband parliament. The military and police ignored his orders and irate lawmakers censured him twice, then unanimously impeached him. Megawati was peacefully and constitutionally installed as his successor on July 23, 2001. The U.S. led the

world in recognizing the new president. U.S. President George W. Bush said in his congratulatory statement,

The people of Indonesia, by addressing their leadership crisis under their constitution and laws, have shown commitment to the rule of law and democracy. We hope all parties will work together to maintain peace, support the constitution and promote national reconciliation... We look forward to working with President Megawati and her team to address Indonesia's challenges of economic reform, a peaceful resolution of separatist challenges and maintaining territorial integrity. (Bush, 2001).

The Megawati presidency provides renewed hope and optimism that this new leadership will finally bring stability and work to resolve the political, economic, and social crises that have threatened Indonesia's disintegration for the past three years. Indonesia's leadership desperately needs to send a positive message to the international community that it is making progress on political reform to enforce the rule of law. Its leaders need to lead the nation out of the economic and financial crisis by creating a positive climate for the return of domestic and foreign capital and investment. And its leadership needs to reestablish peace in conflict areas to preserve territorial integrity.

Outside of Indonesia, countries in the Association of Southeast Asian Nations (ASEAN) also want Indonesia to resolve the ongoing crises so that peace and stability is maintained in the region. Singapore has a vested interest in seeing Indonesia regain its political and economic strength because Indonesia is one its largest sources of investment. Japan and Korea are heavily dependent on Indonesia's oil exports, so they are keenly motivated to see a stable and prosperous Indonesia. Australia is also motivated to see Indonesia regain stability because of its geographic proximity and its potential to serve, unwillingly, as a destination for large refugee flows.

In the United States, several important constituencies affect the development of foreign policy in Indonesia, including the Administration, State Department, Congress, the military, international financial institutions led by the U.S., such as the International Monetary Fund (IMF) and the World Bank (WB), large multinational corporations, and non-governmental organizations (NGOs). While each of these various players has specific interests, the underlying assumptions

are that: a) the U.S. supports a peaceful, constitutional resolution of the crisis; b) the U.S. identifies with the aspirations of the Indonesian people for economic opportunity and democratic governance; and c) that stability and prosperity are linked in an interdependent relationship, where each influences the success of the other.

Implications for U.S. Interests

In his opening statement at a hearing on Indonesia at the House Committee on International Relations, Representative James A. Leach (R-IA) stated, “There is no country in the world of such vital significance to the United States that is less understood by Americans than Indonesia.” (Leach, 2001, 1). Several important (but not vital) U.S. national interests, as articulated by the U.S. Commission on America’s National Interests, are: 1) to maximize US GNP from international trade and investment; 2) to promote pluralism, freedom and democracy in strategically important states as much as is feasible without destabilization; 3) to protect the lives of and well-being of American citizens who are targeted or taken hostage by terrorist organizations; 4) prevent and, if possible at low cost, end conflicts; and 5) reduce the economic gap between rich and poor nations. (Commission on America’s National Interests, 2000, 7).

Indonesia is blessed with enormous cultural and ethnic diversity, artistic traditions, geographic beauty and environmental diversity, as well as an abundance of natural resources, including oil, gas and minerals. It is a major trading partner with the United States. Indonesia’s 13,000 islands span critical airways, and sea lanes through which nearly half of the world’s trade passes daily. It also has enormous human resource potential. According to the 2000 Census of Indonesia, the population is 211 million, dwarfing other countries in Southeast Asia.

It is in the interest of America and the world for Indonesia to succeed in its transition to democracy. If this transition is successful, Indonesia will become the third largest democracy in the world (after India and the U.S.), and perhaps more importantly, the world's largest Muslim democracy (80 percent of its population profess to be Islamic). On the reverse side, as Deputy Assistant Secretary of State for East Asia and the Pacific (and Ambassador-elect) Ralph Boyce said recently in testimony at the House Committee on International Relations, "Growing social disarray and religious conflict in Indonesia could offer a regional entrée to Islamic radicalism and possibly international terrorism." (Boyce, 2001, 1).

In addition, Indonesia's success has important implications for its immediate neighbors, as well as for U.S. strategic and regional interests. Rep. Leach pointed out, "A peaceful, prosperous and democratic Indonesia could also be expected to resume its historic leadership role in ASEAN, help advance principles of open trade, as well as contribute to strengthening regional security in Southeast Asia." (Leach, 2001, 2). Without a stable and supportive Indonesia, the Association for Southeast Asian nations could be rendered hollow. Boyce said, "Fragmentation of the Indonesian state would, of course, be a disaster for regional stability." (Boyce, 2001, 2).

During the last years of the Suharto regime through then end of 1999, the Clinton administration took a rather low key approach towards the political and economic upheaval in Indonesia. The Clinton administration did not rally to the support of the political elite to oust Suharto, even though the U.S. sent clear signals that it would support a political transition towards democracy. Unlike previous administrations, which had opposed the independence of East Timor from Indonesia, the Clinton team advocated self-determination and independence in East Timor, but then played a supportive, rather minor logistical role in the United Nations led campaign to support East Timor's transition to political independence. (Hader, 2001). A strong commitment to human rights during the Clinton administration and by the U.S. Congress led to a suspension of military-to-military relations with Indonesia following the violence, physical

destruction and human rights abuses committed by Indonesian supported militias in the aftermath of East Timor's vote for independence. To its credit, the Clinton administration supported a large humanitarian relief effort in Indonesia between 1998-2000 in response to the need for food and other assistance for internally displaced persons. And, as of May 15, 2001, over \$10 million had been provided in fiscal year 2001 funds for humanitarian assistance to Indonesia's complex emergency. (OFDA, 2001, 1). To date, however, enough attention has not been placed on conflict prevention, mitigation, and reconciliation, which is more cost-effective than humanitarian relief.

The U.S. should now pursue a more activist engagement strategy with Indonesia to preserve important U.S. economic interests, to project American democratic and humanitarian values in Indonesia, and to prevent Indonesia from descending into further chaos. There are some reasons for hope. Democracy has begun to take root and civil society non-governmental organizations are increasingly joining the public discourse. An arduous process of regional autonomy has begun. The downfall in the economy appears to have bottomed out. The expressed optimism of the Bush administration to support this new government is encouraging, and the ascension of the reform-minded Megawati to the presidency provide an excellent operational environment for a renewed and strengthened partnership with Indonesia to advance our national interests and values.

U.S. Foreign Policy Objectives

According to Boyce The basic goal for U.S. policy in Indonesia is to support the transition to a "united, democratic, stable and prosperous Indonesia." (Boyce, 2002, 2). In support of that goal, the following three specific foreign policy objectives are proposed here:

- Assist Indonesia to restore economic governance and growth by creating a favorable investment climate, and by making significant reforms to stabilize the banking and financial systems.

- Assist Indonesia's new democratically-elected government to build civil society and democratic institutions; ensure that decentralization proceeds smoothly; assist the transition to rule of law; and strengthen civil-military relations.
- Assist Indonesia to restore stability by preventing and peacefully resolving serious ethno-political conflicts. Priority should be placed on Aceh, a conservative Muslim province, which is seeking independence from Indonesia so that it can govern according to Islamic law.

Ralph Boyce's testimony acknowledged the challenge of achieving U.S. foreign policy objectives in Indonesia. "We must recognize that our ability -- or that of any outside actor -- to influence events in Indonesia is limited. The size and complexity of that nation, as well as the limits on our resources, dictate that we focus on top priorities, maintaining a long-term strategic approach that can withstand inevitable shocks and crises without losing sight of over-arching objectives." (Boyce, 2002, 2).

The U.S. is supporting many other important programs in Indonesia, including assistance to reform the energy sector, improving local governance over environmental resources, journalist training, and assistance in the public health sector to prevent malnutrition, maternal mortality, and the further spread of HIV/AIDS. All of these are extremely pressing needs in Indonesia. Education must also be increased if Indonesia is to develop its enormous pool of human resources in this increasingly competitive world. But, the U.S. should work to leverage other donor funding and private funding for these challenges. The U.S. would be better served to focus its priorities to the objectives above, at least over the next one to five years. If the root causes of poverty and injustice are not dealt with effectively, then the U.S. will spend its scarce resources treating the symptoms, and not the causes of the problems.

Power and Resources

A combination of all of the tools that the U.S. has at its disposal will be necessary to achieve these objectives. Diplomacy will be needed to influence the government to make important economic and democratic reforms (described in the next section) and to help influence conflict resolution. Intelligence capabilities will be needed to provide information on transnational crime, human rights abuses, and to investigate terrorism. Support for a military presence will need to be increased (described in next section), and foreign aid will be required for technical assistance, institution building, conflict prevention and humanitarian assistance. The private commercial and corporate sector will be an important element of trade and investment for economic growth. Financial resources for the program should increase from the current \$200 million (Zoellick, 2001,2) to approximately \$300 million per year. Given the enormous resources that the U.S. government must generate for the war against terrorism, however, these levels may not be possible or feasible for the next couple of years. If this level of resources cannot be generated for Indonesia, then it is even more imperative that the foreign policy objectives be reduced and focused to the highest priorities as proposed.

Plans and Priorities

Restoring Economic Governance and Growth

The U.S. has important economic interests in Indonesia so a resumption in Indonesia's economic growth would benefit the United States economy. Economic growth and prosperity would also help to bring about peace and stability in Indonesia. The U.S. is now the largest direct investor in Indonesia and U.S. exports recovered \$2.5 billion in 2000, 25 percent more than in 1999. (USINDO, 2001, 10). Indonesia is a major oil and gas exporter. The Bush administration has stressed the need to strengthen U.S. ties with oil-producing nations, so as a major oil-producer and one of the leaders of OPEC, the U. S. should explore ways to strengthen industrial partnerships. Indonesia is blessed with other natural resources and biodiversity which are valuable for the United States, including copper, gold, and zinc. American corporations including

oil giant Unocal, power systems and engine-maker General Electric, and miner Freeport-McMoRan Copper and Gold have much to gain from a more prosperous Indonesia. Recently the Chairman of the U.S.- Indonesia Business Committee stated in an interview with Jake Lloyd-Smith of the *South China Morning Post*, “We intend to move quickly to support the new government in its efforts to build a business environment that will sustain increasing levels of prosperity in Indonesia.” (Lloyd-Smith, 2001). William Liddle, a long-time observer of Indonesia and political science professor at Ohio State University said, “The one bright ray of hope, so far, for a Megawati presidency is economic policy...To her credit, Megawati has distanced herself from [former President Wahid] in this area and sought the advice of market-oriented economists.” (Liddle, 2001).

Threats to the restoration of economic growth and prosperity are daunting, however, and the new leadership of Indonesia must move quickly to effect important macroeconomic, fiscal and monetary reforms. Among these reforms are: reducing its massive international debt (105% of its GDP); providing assurances that its central bank will remain independent from the government; restructuring public and private assets; and creating economic institutions, policies and laws. If Megawati’s administration is able to effect these reforms, the International Monetary Fund (IMF) will make available several billions of dollars in loans and the “Paris Club” will extend credit to Indonesia which will further boost investor confidence. Indonesia must create a free, fair and competitive market to attract and retain investment and provide the level of economic growth necessary to reduce poverty.

Democratization and Decentralization

The fall of the authoritarian regime led to high public expectations for more accountable and transparent government. Indeed, the success of the democratically-elected government may depend on its ability to respond to the public’s high expectations for reform and its ability to deliver broad-based economic recovery. Authority in Indonesia is rapidly shifting from civil servants and military officials to elected officials, and from the center (Jakarta) to over 265

districts and cities. The success of efforts to manage and deliver key urban and social services will be determined increasingly by local capacities. Therefore, the U.S. should place a high priority on strengthening the capabilities of local governments to assume these new responsibilities as the process of decentralization evolves.

Prolonged political instability has dramatically affected the economy by reducing investor confidence. Political bickering among political parties and between the administration and parliament, has impeded the government's ability to make significant political reforms. One of the most critical reforms that needs to be made is judicial sector reform if the rule of law is to emerge in Indonesia. Rule of law is needed to resolve disputes in both the public and private sectors, and to help enforce human rights. Rule of law is also needed to deal effectively with transnational issues, including terrorism, piracy, drug trafficking, and illegal migration.

Another critical area for political reform is in civil-military relations. The Indonesian Army (Indonesian acronym TNI) is perhaps the strongest and most cohesive element of Indonesian society, with the potential to support or subvert the democratization process. Greater civilian control of the powerful military is essential for a stable democracy. The military is a dominant force in domestic politics, but it needs to transform itself into a traditional military force that concentrates on defence against outside threats and leaves internal security to the police (Karniol, 2001, 4). President Megawati is closer to the military leadership than her predecessor, and this may be an area for concern since she may intend the military to be "a supporting pillar of her presidency." (Liddle, July 31, 2001, p.2). But, she has demonstrated her commitment: "We need a security force which is effective, highly disciplined and under the control of the government." (Haseman and Karniol, August 29, 2001). Increased military assistance would also "help support the effort to bring the Indonesian military within the civilian and democratic structure that President Megawati and her team are putting together." (Zoellick, August 11, 2001, p.2).

Finally, while Indonesia is not a military ally of the U.S., both Indonesia and the U.S. would benefit from restoring and strengthening of military-to-military ties. Military equipment sales and International Military Education and Training (IMET) programs were prohibited by U.S. Congressional legislation (the Leahy Amendment) following the TNI's involvement in the massive and violent destruction of East Timor in 1999 after it voted for independence. Primary conditions for removing the restrictions are accountability and prosecution of military officers involved in human rights abuses in East Timor. The Bush administration has expressed interest in restoring some military-to-military contacts with Indonesia within the limits of the Leahy Amendment. Megawati, for her part, has apologized to the Indonesian people for past abuses and has acknowledged the need to pay more attention to human rights. She also announced in August that she will allow investigation into atrocities both before and after the 1999 referendum in East Timor, which may signal Indonesia's willingness to work through this problem. (Karniol and Haseman, 2001, 3).

It is in the U.S. interest to influence the Indonesian authorities to prosecute certain key military officers so that military sales and training may resume. Otherwise, the Indonesian military will continue to seek suppliers and assistance from countries which do not place conditions on arms sales (e.g., South Korea, Russia, Ukraine, and Jordan). Training would help to increase professionalism in the military. Training is needed in planning and business management, and in particular, reforming ingrained habits and attitudes of "heavyhandedness" in order to regain respect by both Indonesians and its international allies. But, the Indonesian military will also need a huge amount of capital since the TNI obtains only a small percentage its funding from the national budget; about 2/3 of its funding from a huge military business empire that touches most sectors of the economy. Karniol points out, "The key to meaningful improvements will depend on Indonesia's economic recovery -- to infuse capital into the military procurement system -- and military reforms to restore both domestic and international confidence." (Karniol, 2001, 5).

Conflict Prevention and Resolution

Indonesia is still suffering from its authoritarian past. Economic and political injustice engendered enormous social tension that is now being released in violent ethnic, religious and separatist conflicts throughout the archipelago. Conflict in several regions has been fueled by resentments over Indonesia's policy of transmigration of the population from Java to less populated areas. Other contributing factors include a lack of resource distribution and real or perceived social inequities in past government policies. (OFDA, 2001, 1).

Indonesia depends heavily on its oil, natural gas and mining revenues, but civil unrest in several remote regions has hindered the flow of royalties to the central government and has also disrupted American business operations. Several months ago, ExxonMobil corporation shut down production at a natural gas facility in the troubled Aceh region after rebels attacked its workers and facilities. The closure cost the government as much as \$40 million a month. (Yerton, August 3, 2001). Indonesia's political instability has also adversely effected the stock of McMoRan Freeport, a huge mining enterprise in the troubled province of Irian Jaya which is also seeking independence. (Yerton, August 3, 2001).

Violent ethnic and religious conflicts in the Moluccas, West Timor, East Timor and Kalimantan have resulted in a huge humanitarian disaster which has displaced over one million persons throughout Indonesia. (OFDA, 2001, 1). The presence of IDPs drains limited government resources as the Internally Displaced Persons (IDPs) migrate to other locations and compete with local populations in resource-poor environments for basic human needs, including food, water, shelter, schooling, and health care. This has a destabilizing effect in the affected host communities and could lead to further violence.

The U.S. government should continue to provide emergency humanitarian relief when necessary in the short-term. But, a more intensive, comprehensive, and longer-term approach is needed to resolve current conflicts, prevent further conflicts and help IDPs and affected communities to recover from the impact of conflict. Additional investments should be made in

building conflict resolution skills; in providing rehabilitation support for affected communities; and in assisting in resettlement efforts. Finally, the U.S. should assist the Indonesian government to explore and negotiate ways for disaffected segments of the population to be compensated for past transgressions and injustices.

Conclusion

It is in America's interest that rising tensions in the Middle East, which have ignited anti-American sentiments throughout the Muslim world and which resulted in the unprecedented terrorist attack on the U.S. on September 11, 2001, do not spill over into Indonesia and play into the hands of the more radical Muslim groups in the country. The best way to ensure this is through a committed, long-term approach to assist Indonesia in its economic recovery, its transition to democracy, and its resolution of conflicts. These efforts will help to restore the stability of Indonesia and improve the lives of millions of Indonesians.

Lakasamana Sukardi, a prominent economist in the new cabinet in charge of the ministry of state-owned enterprises, discussed the role of nationalism in Indonesia's past and present at a USINDO forum last March:

The nation is tired of blaming the past and is tired of international criticism. A sense of humiliation fuels the anger that is seen in the acrimony and violence widespread [in Indonesia] today...Reforms must include restoring a sense of national pride and self-respect. Otherwise nationalism may take reactionary forms: resistance to investors, to privatization, to foreigners...Reforms must start with a national leader whom the people can trust and respect. (USINDO, 2001, 7).

The United States has an opportunity now to support President Megawati, whom the people elected and trust, in her stewardship of the democratic process in Indonesia. The U.S. role should be one of support and advice, not interference.

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